



0000151026

1 ORIGINAL

2 BEFORE THE ARIZONA CORPORATION COMMISSION

3  
4 IN THE MATTER OF THE  
5 APPLICATION OF LITTLE PARK  
6 WATER COMPANY, AN ARIZONA  
7 CORPORATION, FOR A  
8 DETERMINATION OF THE FAIR  
9 VALUE OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
ITS WATER RATES AND CHARGES  
FOR UTILITY SERVICE BASED  
THEREON.

DOCKET NO: W-02192A-13-0336

COMPANY COMMENTS RE STAFF  
REPORT

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

2014 JAN 21 P 4:12

RECEIVED

10 Arizona Corporation Commission

11 DOCKETED

12 JAN 27 2014

13 DOCKETED BY

14

15 Little Park Water Company ("Company") hereby files its comments  
16 regarding Staff Report, which are set forth in Attachment 1.

17  
18 RESPECTFULLY SUBMITTED this 27th day of January, 2014.

19  
20 Little Park Water Company

21   
22 Nicholas Gudovic

23 Operations Manager  
24  
25  
26

## **ATTACHMENT 1**

Little Park Water Company ("LPW" or the "Company") provides the following comments/exceptions to the Staff Report filed on January 15, 2014 in Docket No. W-02192A-13-0336:

## **Engineering Analysis**

### Best Management Practices ("BMPs")

The Company agrees with the Staff recommendation to implement 3 BMPs to help minimize issues between the parties. However, the Company would note the implementation of BMPs costs money and there is no provision for the Company to recover these costs in this case

## **Operating Margin**

The Company recommends the Commission adopt the Company proposed 17 percent operating margin. The 10.67 percent operating margin recommended by Staff is simply too low. Based on the Staff recommendations, the Company will be authorized an operating income of \$9,550 (Staff recommended revenues of \$89,507 times 10.67%). Putting aside the fact that the Company is unlikely to achieve this operating income, after paying interest expense (Decision No. 72667) of over \$7,900 on its long-term debt, the Company will have a net income of just \$1,650 (\$9,550 minus \$7,900). This is a very slim earnings cushion. A change in operating expenses of just 2% will wipe out these earnings and the Company will incur losses (just as it has since the last Commission decision).

Further, the Company will likely not generate the adopted revenue requirement in this case just as it did not in the intervening years since the prior decision<sup>1</sup>. The Company test year revenues were nearly \$10,000 lower than the authorized revenues in the prior rate case. The combination of higher expenses and the likelihood the Company will not generate the revenue requirement will lead further losses, lead to the necessity for the Company to file a rate case much sooner than the anticipated 3-year period, force the Company to incur additional costs of another rate case much sooner than anticipated, as well as lead to higher rate increases in the future. The Company does not believe it is in the public interest for a utility to not recover its cost of service and to incur losses

---

<sup>1</sup> Decision No. 71840, August 10, 2010.

Little Park Water Company  
Exceptions to Staff Report Dated January 15, 2014  
Docket No. W-02192A-13-0336

which will deteriorate its financial condition, undermine its ability to maintain its credit, and to attract capital.

#### Plant-in-Service

The Company disagrees with the removal of \$2,532 from plant account 320.1 - Water Treatment Equipment. This amount was capitalized interest or the allowance for funds used during construction ("AFUDC"). There is no dispute that AFUDC was incurred by LPW. In fact, Staff and the Commission allowed AFUDC in the prior rate case plant costs. There may have been a disagreement on whether the short-term construction financing provided by Big Park Water should have been authorized, but never-the-less AFUDC was incurred by LPW and should be allowed in this case.

#### **Rate Design**

The Company strongly disagrees with the Staff rate design which recovers less than 33 percent of revenues from the monthly service charge. Further, Staff's design keeps the first tier commodity relatively low which requires more revenue recovery from the higher priced commodity rates. The bottom line is the Staff rate design will lead to higher revenue instability. The Company would like the Commission to consider the Company's test year revenues were over 10% lower (or nearly \$10,000) in the test year compared to the previously authorized revenues. This decline has been due to water conservation. Clearly the rate design has impacted the Company's revenues to a fairly significant extent. The Company will likely not generate the adopted revenue requirement nor earn its authorized return in this case just as it did not in the intervening years since the prior decision. Such circumstances are not unique to Little Park Water Company, but are common for small water utilities.